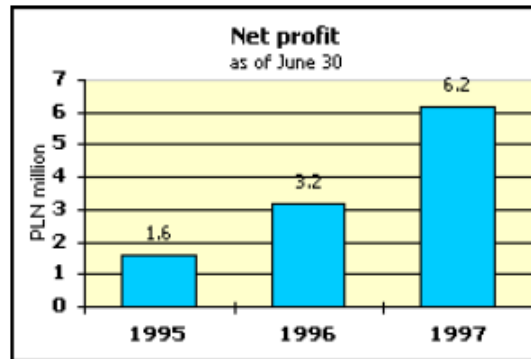


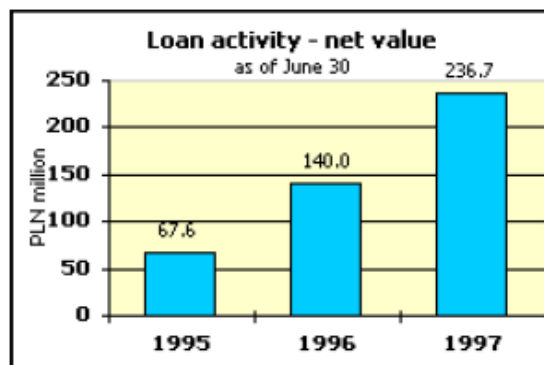
# 1997 Semi-annual Report

The first six months of 1997 have been auspicious for PPABank. The chief factors enhancing the Bank's financial performance during the period in question were as follows:

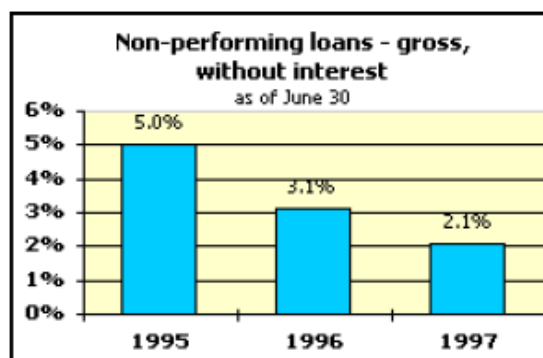
- closing the issue of E-series shares, as a result of which the Bank's own funds increased by more than PLN 19 million
- increase of interest income in connection with dynamic credit expansion and growing client deposits
- increase of fee-and-commission income, generated by the Bank's extensive offer of high-quality services
- good quality of the loan portfolio



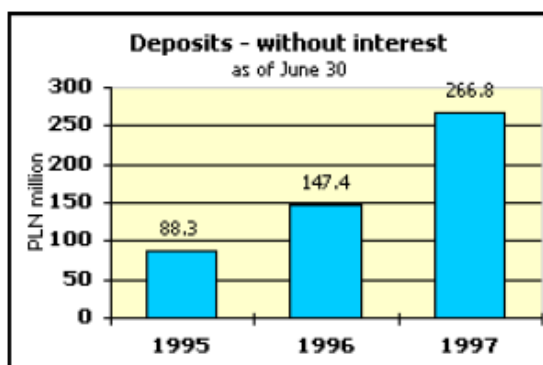
Net profit for the period in question stood at PLN 6.15 million. This figure allows one to predict a profit of PLN 12.4 million at the end of 1997. Such good results have been made possible by the Bank's investment activities in previous periods.



The loan commitment of the Bank has increased from PLN 173.5 million as of the end of 1996 to PLN 243.2 million after the first six months of 1997. Taking into account the sector structure of debtors, the highest loan commitment occurs in the sectors of trade and manufacturing. It should be stressed, however, that the Bank consistently adheres to the policy of sectoral diversification of debtors, which substantially increases the security of the loan portfolio.

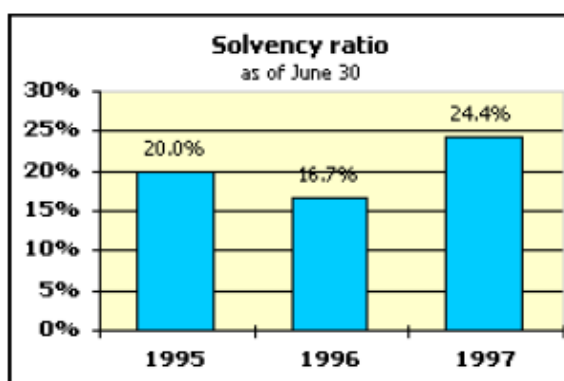


Dynamic credit expansion has been accompanied by further improvement of the quality of the loan portfolio: the proportion of non-performing loans in the portfolio stood at 2.1% as of the end of June 1997 (compared with 2.7% at the end of 1996). PPABank clearly stands out in this respect from the banks quoted on the Warsaw Stock Exchange. The Bank's commitment to the quality of the loan portfolio is reflected, especially, in the procedures for credit application processing: particular attention is paid to the liabilities of every potential debtor.

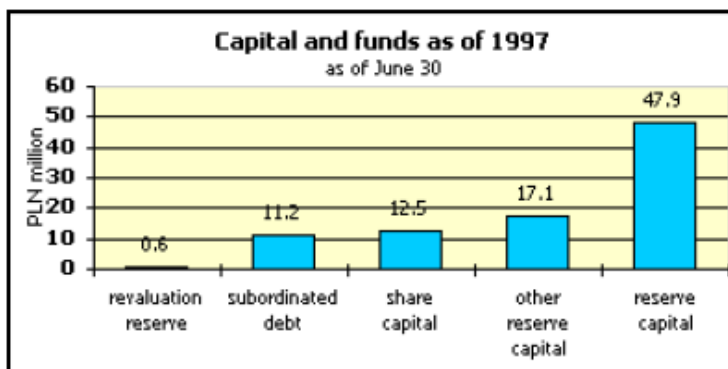


Aggregate customers' deposits in PPABank (excluding deposits of financial institutions) after the first six months of 1997 stood at PLN 266.8 million. The majority of PPABank's deposit clients are economic entities.

Apart from regular deposits, PPABank has introduced a new product - the deposit certificate, which is a bearer instrument. Its principal advantages consist in the competitive interest rate (compared with traditional term-deposit accounts) and a speedy and simple redemption procedure (after three months, the Bank pays the due amount to the bearer).



PPABank's capital adequacy ratio stood at 24.4% as of 30 June 1997. It thus exceeded by far the minimum of 8.0% recommended by the norms adopted by the National Bank of Poland.



Efforts to strengthen the Bank's position on the market have also taken the form of capital increase, effected through the issue of E-series shares, commenced in January. PPABank's share capital, increased in April, amounts to PLN 12,500,000 and the Bank's own funds (including subordinated debt) have increased to PLN 89.4 million.

The structure of shareholders, as of 30 June 1997, was as follows:

- 25.7% Polish-American Enterprise Fund
- 25.1% Enterprise Credit Corporation (ECC)
  - 9.7% RBS Trust Bank, Luxembourg
  - 9.5% Industrial Development Agency
- 30.0% Other shareholders

A customers' opinion poll conducted in the first half of 1997 by the INDICATOR Marketing Research Centre confirms the strong position of PPABank on the banking services market, reflected first of all in the extremely positive evaluation of the Bank's customer service efficiency. What the clients especially appreciate is the high speed of banking operations, and the competence and accuracy of the personnel. PPABank is perceived as an efficient, customer-friendly institution offering an attractive range of services. Apart from the qualifications of the Bank's employees, such a state of affairs is due to the intensive use of the latest advances of information technology. In the years 1995-1997, PPABank has invested ca. USD 1.6 million in its computer system.

The main priorities of PPABank S.A. during the first half of 1997 included further improvement of the quality of services, and winning new clients. To meet the expectations of our credit customers, who expressed an interest in other services of ours as well, we opened a Branch Office in Poznan in June this year. It is located in the Dwór Hamburgski ("Hamburg Mansion") building - the first Class-A business centre in Poznan. The Poznan Branch is the central point of the Western Region of the Bank's operations. On opening, the Branch provided services for 150 customers. In July, the Board of Executives decided to extend the scope of services offered by the Representative Office in Czestochowa. It is the Bank's intention to convert gradually the existing Representative Offices (concerned solely with credit operations) into full-fledged operating units.

## Balance Sheet

| <b>ASSETS</b>                                      | <b>30.06.97<br/>in PLN thousand</b> | <b>31.12.96<br/>in PLN thousand</b> |
|--|-------------------------------------|-------------------------------------|
| Cash and National Bank of Poland balances          | 41 772                              | 41 354                              |
| Due from financial institutions( <i>of which</i> ) | 75 075                              | 81 032                              |
| <i>Call</i>  | 3 518                               | 2 801                               |
| <i>Term</i>  | 71 557                              | 78 231                              |
| Due from customers                                 | 243 248                             | 178 671                             |
| Securities   | 97 212                              | 80 392                              |
| Other investments                                  | 5                                   | 5                                   |
| Intangible assets                                  | 6 023                               | 4 863                               |
| Fixed assets                                       | 12 120                              | 7 518                               |
| Fixed assets leased to customers                   | 12 034                              | 14 602                              |
| Other assets( <i>of which</i> )                    | 5 033                               | 9 707                               |
| Seized assets                                      | 7                                   | 18                                  |
| Other  | 5 026                               | 9 689                               |
| Interperiod settlements                            | 1 232                               | 1 607                               |
| <b>TOTAL ASSETS</b>                                | <b>493 754</b>                      | <b>419 751</b>                      |

| <b>LIABILITIES</b>                  | <b>30.06.97<br/>in PLN thousand</b> | <b>31.12.96<br/>in PLN thousand</b> |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Due to National Bank of Poland      | 4                                   | -                                   |
| Due to financial institutions       | 83 763                              | 58 987                              |
| Due to other customers              | 270 966                             | 278 818                             |
| Special funds and other liabilities | 38 488                              | 6 419                               |
| Accrued costs and deferred income   | 3 925                               | 2 915                               |
| Deferred tax provision              | 1 092                               | 2 624                               |
| Subordinated debt                   | 11 236                              | 11 236                              |
| Share capital                       | 12 500                              | 10 000                              |
| Reserve capital I                   | 47 888                              | 31 013                              |
| Reserve capital II                  | 17 738                              | 8 682                               |
| Net profit                          | 6 154                               | 9 057                               |
| <b>TOTAL LIABILITIES</b>            | <b>493 754</b>                      | <b>419 751</b>                      |

#### **Profit and Loss Statement**

|   | <b>6-month period<br/>ended<br/>30.06.97<br/>in PLN thousand</b> | <b>12-month period<br/>ended<br/>31.12.96<br/>in PLN thousand</b> | <b>6-month period<br/>ended<br/>30.06.96<br/>in PLN thousand</b> |
|---|--|---|--|
| Interest income                             | 36 954   | 54 222  | 24 026   |
| Interest expense                            | 18 233   | 27 024  | 12 421   |
| Net interest income                         | 18 721   | 27 198  | 11 605   |
| Fee and commission income                   | 7 471  | 12 131  | 5 432  |
| Fee and commission expense                  | 597  | 1 076   | 523  |
| Income on financial transactions            | 336  | 424   | 445  |
| Foreign exchange differences - net          | 2 179  | 3 928   | 1 658  |
| Profit on banking activities                | 28 110   | 42 605  | 18 617   |
| Other operating income                      | 4 234  | 8 524   | 2 768  |
| Other operating expense                     | 1 869  | 3 188   | 249  |
| General expenses                            | 16 589   | 24 094  | 10 999   |
| Depreciation of fixed and intangible assets | 3 847  | 6 951   | 3 271  |
| Charges to loan loss provision              | 1 278  | 3 895   | 1 812  |
| Release of provision and other decreases    | 1 314  | 2 500   | 938  |
| Gross profit                                | 10 075   | 15 501  | 5 992  |

|            |       |       |       |
|------------|-------|-------|-------|
| Income tax | 3 921 | 6 444 | 2 763 |
| Net profit | 6 154 | 9 057 | 3 229 |

### Cash Flow Statement

|   | 6-month period<br>ended<br>30.06.97<br>in PLN thousand | 12-month period<br>ended<br>31.12.96<br>in PLN thousand |
|---|--|---|
| <b>A. CASH FLOW FROM OPERATING ACTIVITY</b> |  |   |
| I. Net profit (loss)                        | 6 154  | 9 057   |
| II. Adjustments                             | 18 328   | 25 885  |
| III. Net cash flow from operating activity  | 12 174   | 16 828  |
| <b>B. CASH FLOW FROM INVESTING ACTIVITY</b> |  |   |
| I. Receipts from investing activity         | 1 359  | 3 021   |
| II. Expenditures on investment              | 8 142  | 11 504  |
| III. Net cash flow from investing activity  | 6 783  | 8 483   |
| <b>C. CASH FLOW FROM FINANCIAL ACTIVITY</b> |  |   |
| I. Receipts from financial activity         | 19 375   | 26 039  |
| II. Expenditures on financial activity      | -  | -   |
| III. Net cash flow from financial activity  | 19 375   | 26 039  |
| D. NET CASH FLOW                            | 418  | 728   |
| E. CASH AT THE BEGINNING OF THE PERIOD      | 41 354   | 40 626  |
| F. CASH AT THE END OF THE PERIOD            | 41 772   | 41 354  |

### Major events in the first half of 1997

#### April

RBS Trust Bank Ltd. (formerly, S.G. Warburg) increases, by way of purchase of new shares, its holding of PPABank stock and the corresponding percentage of votes at the General Shareholders' Meeting from 5% to 9.65%, thus becoming one of the three principal institutional shareholders of the Bank.

Registration of share capital in the amount of PLN 12,500,000.

#### June

Opening of the Branch Office in Poznan.

#### July

Opening of the Czestochowa Sub-Branch of the Branch Office in Katowice (formerly, only a Representative Office functioned in Czestochowa).